

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kinniya Urban Council including the financial statements for the year ended 31 December 2022 comprising the Statement of Statement of Balance sheet as at 31 December 2022, Income and Expenditure Account, Cash Flow Statement for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, under my direction in pursuance of provisions in Article 154 (1) of the constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with the sub section 181 (1) of the Urban Council Ordinance (Authority 255) and National Audit Act No.19 of 2018. My comments and observations which I consider should be report to parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Kinniya Urban Council as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Practices.

1.2 Basis for Qualified Opinion

I expressed qualified opinion on the matters described in paragraph 1.6 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Practices, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Urban Council's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Urban Council is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements.

1.4 Audit Scope (Responsibility of the Auditor for the audit of Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material

if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercised professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of its internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Urban Council, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Urban Council has complied with applicable written law, or other general or special directions issued by the governing body of the Urban Council;
- Whether it has performed according to its powers, functions and duties; and
- Whether the resources of the Urban Council had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Report on Other Legal Requirements

National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- (a) The financial statements of the Urban Council presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The financial statements presented includes all the recommendations made by me in the previous year, as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

The following accounting deficiencies were observed.

Audit Observation	Comments of the Council	Recommendation
(a) The value of the goods donated by the Local Government Department and the Chief Minister's Office in the year under review amounted to Rs.481,999 was not accounted for.	It had been entered in the board of survey register.	The value of fixed assets should be accounted for.
(b) Capital expenditure worth Rs.21,488,717 from the council fund in the year under review was accounted as recurrent expenditure.	Accepted	Recurring and capital expenditure should be properly classified.
(c) During the year under review, the value of tires of Rs.685,745 purchased on credit basis was not accounted for.	It will be corrected this financial year.	The relevant expenses should be included in the relevant year.
(d) While bringing forward the employee loan balance as at the end of last year, it was understated by Rs.22,500.	Accept, Actions will be taken and corrected in the future.	Accounts should be corrected.
(e) Although the surplus transferred from the Income and Expenditure Account to the Accumulated Fund Account was Rs.3,214,033, the surplus in the Accumulated Fund Account was overstated by Rs.12,546,307 by showing it as Rs.15,760,340 in the Accumulated Fund Account.	- Do -	- Do -
(f) The value of the hostel of Rs.2,114,483 constructed in the year under review under the Special Development Program for Local Authorities (LDSP) was not capitalized.	The land and buildings will be included in the final accounts after they are transferred to us.	- Do -
(g) The value of children's Park items worth Rs.1,123,500 received from the council fund in the year under review was not capitalized.	The new items will be presented in the financial statements in accordance with the disclosure made by you.	- Do -
(h) In the year under review, Rs.6,923,868 payable for renovation works had not been accounted for.	Accept, It will be corrected by journal entries in the future.	- Do -
(i) Rs.1,806,583 stamp duty received in the	Accept. The final account of	- Do -

previous year was correctly accounted for in that year, but in the year under review the same value was credited to the Accumulated Fund and debited to the Stamp Duty Receivable account. the year 2023 be corrected in a way that such errors do not occur, and submitted to you.

- (j) No provision was made for the audit fees payable for the last 3 years amounting to Rs.703,893 and for the audit fees of the year under review. Accept. It will be corrected through journal entries to make the opening balances in the final account of the year 2023 equal. - Do -
- (k) The pension contribution paid to the local government employees in the year under review was understated by Rs.187,464. Those arrears were not collected. It will be corrected in the future. - Do -

1.6.2 Unreconciled Control Accounts

Audit Observation	Comments of the Council	Recommendation
There was a difference of Rs.3,933,820 between the total balances of 08 accounts as on 31st December of the year under review and schedules.	It will be corrected this financial year.	Comparisons should be made appropriately.

1.6.3 Documentary Evidences not made available for Audit

Non submission of Audit evidence	Comments of the Council	Recommendation
As on December 31 of the year under review, 09 account balances worth Rs.198,076,085 could not be satisfactorily verified in the audit due to non-submission of fixed asset registry, assessment documents, lease documents, creditor documents, and stamp duty and court fine documents.	The documents will be corrected in the future.	Documents should be updated and maintained.

1.7 Non- Compliances

Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Non-compliance with Laws, Rules, Regulations and Management Decisions etc. are as follows.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) Financial Regulations 1646 of the Democratic Socialist Republic of Sri Lanka	Original copies of daily running charts and monthly summaries of 33 vehicles in use by the council were not submitted for audit.	It will be properly submitted to the audit this year.	Financial regulations should be followed

**(b) Public Administration
Circulars**

- (i) Circular No. 03/2017 dated 19 April 2017 In the year under review, total overtime allowances and holiday payments totaling Rs.1,054,876 were paid without using the fingerprint machine. New machines will be installed and fingerprints recorded in this financial year. It should be complied with relevant circulars
- (ii) Paragraph 3.1 of Circular No. 30/2016 dated 29 December 2016 The fuel consumption test of 33 vehicles in use by the urban council was not carried out. Subsequently, the Council has taken action to conduct a fuel inspection. - Do -

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of recurrent expenditure over revenue of the Council for the year ended 31 December 2022 amounted to Rs. 11,674,683 as against the excess of revenue over recurrent expenditure amounted to Rs. 5,021,055 in the preceding year

2.2 Revenue Administration

2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

According to the information presented by the Council relating to Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

Source of Revenue	2022				2021			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Rates and Taxes	4,911	4,911	2,510	7,695	4,911	4,911	1,544	5,294
Rent	20,345	12,659	3,063	45,911	19,196	19,196	3,003	36,315
License Fees	1,675	1,675	1,675	--	1,363	1,363	1,363	--
Other revenue	<u>4,200</u>	<u>4,200</u>	<u>1,029</u>	<u>9,647</u>	<u>7,095</u>	<u>7,095</u>	<u>618</u>	<u>6,476</u>
	<u>31,131</u>	<u>23,445</u>	<u>8,277</u>	<u>63,253</u>	<u>32,565</u>	<u>32,565</u>	<u>6,528</u>	<u>48,085</u>

2.2.2 Performance in Revenue collection

Audit Observation	Comments of the Council	Recommendation
(a) Rates and Taxes		
(i) Out of Rs.10,205,311 to be charged in the year under review, Rs.7,694,359 remained outstanding by the end of the year.	The arrears of the previous years and the arrears related to this year will be charged at present by employing casual workers of the Urban council in direct field visits.	Revenue should be collected as per the provisions of the Act.
(ii) There were 65 shops on Kinnia main road but for all these shops the calculation of income was based on a property valuation that was more than 10 years old and assessment was not done timely, hence huge amount of revenue has been lost.	Due to the fact that we have not received the reports of the assessment department so far, it has not been possible to carry out a revaluation.	Assessments should be done promptly.
(b) Rent		
(i) The rent received by the Urban Council from the lease of the trading right of the public market and beef as on December 31 of the year under review was Rs.45,910,123.	There are revenue collection issues due to COVID19, economic crisis and fuel crisis. Even so, the charges for the Public market in the year 2022 had been done without any arrears.	According to the agreements, arrears revenues should be collected.
(ii) As on December 31 of the year under review, the arrear rent of the fish market was Rs.7,595,000.	It has been decided to file a court case.	- Do -
(c) Stamp Duties		
As on December 31 of the year under review, stamp duty receivable from the Chief Secretary of the Provincial Council and other authorities was Rs.5,897,150.	Steps have been taken to collect court fines and stamp duty in due period.	Steps should be taken to collect the fees within the stipulated time.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
Due to non-renewal of the licenses of 08 vehicles owned by the council, arrears and fines of Rs.23,960 were paid from council funds.	During the year under review, some vehicles were found to be defective and the vehicle license was obtained after repairing them. At present, the licenses will be obtained in due time.	Vehicle licenses should be obtained in due time.

3.2 Informal transactions

Audit Observation	Comments of the Council	Recommendation
Due to non-payment of Employees' Provident Fund contributions on due dates, penalty charges of Rs.11,624 were paid for the period from July 2021 to January 2022.	That the revenue collection activities are currently being carried out for the due payments of monthly salary.	In accordance with the relevant Act, timely payments should be made and steps should be taken to avoid payment of fines.

3.3 Assets Management

Audit Observation	Comments of the Council	Recommendation
(a) Assets that have not transferred ownership		
The ownership of 13 vehicles used by the council was not taken over.	The ownership of the vehicles will be taken over to the council.	Arrangements should be made to take over the vehicle ownership.
(b) Idle or underutilized Assets		
The compost crusher machine purchased for Rs.850,000 in the year under review by the Provincial Development Special Projects (LDSP) for the organic fertilizer production center of the council remained idle for more than a year.	That action will be taken in the future.	Action should be taken to achieve the established goals.